

VMRII-VRO GUIDELINE  
1099-HOW TO SELECT DEFAULT  
WITHHOLDING CLASSES

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Reference: *IRS Reportable Payments Handout*  
*IRS Default Withholding Class Spreadsheet*

Narrative – Certain types of vendors should not have their withholding set up with the default class of 07. Here are some examples.

Navigation: *Vendors>Vendor Setup/Maintenance>Vendor Information*

The most commonly used IRS Withholding Classes are:

**01-Rents** – any type of rent payment including renting rooms at a motel

**03-Other Income** – would cover payments that were not earned (i.e. awards, winnings, prizes, types of damages-see IRS 1099-MISC Instructions for more details). This does not include prizes or awards paid to employees.

**06-Medical and Health Care Payments** – Corporations are reportable if they provide medical services. Goods such as pharmaceuticals or medical supplies are not.

**07-Non-Employee Compensation** – paid for a service provided.

**14-Gross Attorney Proceeds** – usually a lump sum payment for damages or lawsuit awards paid to an attorney and client; payments to a law firm for a third party.

Instructions for Setting Up Withholding Classes

1. Motels and hotels that are not corporations:
  - a. Set up withholding classes of 01 and 07
  - b. Mark class 01 with the default checkmark
2. Health Providers that are for-profit corporations:
  - a. Set up withholding class 06 only with default checkmark
3. Health Providers that are reportable (individuals, sole proprietors, partnerships, etc.):
  - a. Set up withholding classes of 06 and 07
  - b. The default will depend upon the agency requesting – VMRs may need to ask them why they are being paid.

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- i. 06 is for providers of medical services
  - ii. 07 is for doctors and psychiatrists that do consulting or give expert witness testimony.
  - iii. Rule of thumb could be 07 for individuals performing services and 06 for businesses. It's best to ask the person paying the bill, however.
- 4. All legal firms, even corporations:
  - a. Set up two withholding classes, 07 and 14
  - b. Mark 07 with the default checkmark
- 5. Individuals, sole proprietors, and partnerships
  - a. 01-Rents
  - b. 03-Other Income (award, prizes, etc.)
  - c. 06-Only if the entity is a medical firm
  - d. 07-Is to be used for services performed
  - e. 14-Only if the entity is a legal firm

*Feel free to contact the Vendor Registry Office at [spovendor@nd.gov](mailto:spovendor@nd.gov) for help or guidance in entering or updating vendor information. The Vendor Registry Office will research the information, take the appropriate action and respond to your inquiry in a timely manner.*